

# Edwards & Angell LLP

750 Lexington Avenue New York, NY 10022 212.308.4411 fax 212.308.4844

Harold J. RuvoIdt

212.756.0325

fax 212.308.4844

hruvoIdt@edwardsangell.com

August 23, 2004

Lewis J. Liman, Esq.  
Cleary, Gottlieb, Steen & Hamilton  
One Liberty Plaza  
New York, New York 10006-1470

Re: Kingsway Financial Services vs. Pricewaterhouse-Coopers LLP, et al  
No. 03 Civ. 5560 (RMB)

Dear Mr. Liman:

Pursuant to our telephone conversation, without prejudice and for purposes of settlement only I hereby provide you with our initial assessment of damages.

Kingsway has determined that ACHI's pre-acquisition unpaid loss reserves and loss adjustment expenses were understated by approximately \$67.3 million.

Kingsway also has determined for settlement purposes that ACHI had overstated its April 3, 2002 deferred tax assets by approximately \$1.2 million.

Kingsway also claims for settlement purposes an asset impairment adjustment for the \$9.2 million of goodwill should also be included in the calculation of economic damages.

As of April 3, 2002, ACHI incurred approximately \$12.6 million of underlying losses for the twenty-one months ended December 31, 2003.

During 2001 and 2002, Kingsway's operations resulted in an approximate 12% return of stockholders equity. This rate of return should be used to determine the opportunity cost component of economic damages.

Subsequent to April 3, 2002, Kingsway has been required to invest approximately \$31.9 million of additional capital in ACHI. As of December 31, 2003, the total amount invested in ACHI was approximately \$57.3 million). Accordingly, the opportunity cost component of economic damages should be based on the weighted average amount of invested capital that ranged from approximately \$25.4 million to approximately \$57.3 million during the period April 3, 2002 to December 31, 2003.

August 23, 2004

Page 2

Finally, Kingsway claims for settlement approximately \$2.0 million of professional fees related to losses related to the ACHI acquisition.

Summary for purposes of settlement:

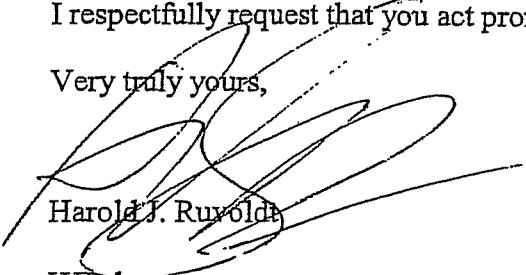
|  |               |
|--|---------------|
| Purchase of Common Stock:                    |               |
| Understatement of Unpaid Losses and LAE's    | \$ 67,300,000 |
| Overstatement of Deferred Income Taxes       | 1,200,000     |
| Overstatement of Goodwill                    | 9,237,000     |
|  | 77,737,000    |
| 2002 and 2003 Underwriting Losses            | 12,620,000    |
| Opportunity Cost, lost Kingsway profits      | 14,241,000    |
| Out-of-Pocket Expenses, legal and accounting | 2,038,000     |
| Total Economic Damanges                      | \$106,636,000 |
|  |               |

Given the fact that you have represented to us that the policy for the directors and officers provides for a maximum coverage of \$10 Million Dollars for all of the directors cumulatively and in reliance upon that representation, please be advised that I am authorized by my client to accept, at this time, in settlement of the claims against the officers and directors only and without prejudice to its claim against PricewaterhouseCoopers, Miller Herbst and others, the sum of \$8.5 Million Dollars. As you will see that amount is less than 10% of the loss as set forth in the chart above.

My client is prepared to accept this sum provided an agreement is reached prior to the decision in the United States District Court on the presently pending motion to dismiss or within the next two weeks whichever comes sooner.

I respectfully request that you act promptly in this matter.

Very truly yours,

  
Harold J. Ruxold

HJR:lmg

cc: Shaun W. Jackson  
William Star